

AR36



INTERNATIONAL
VISUAL
SYSTEMS LTD.

FIRST
HALF
REPORT

Six Months Ended July 31, 1972

TO OUR SHAREHOLDERS:

The results of our six month operations ended July 31, 1972, reflect an upward trend in both revenue and earnings, as we accomplished our primary goal of making National Cinema Systems, Inc., a wholly-owned subsidiary, fully operational and profitable.

Operations of National Cinema Systems, Inc. achieved record sales for the six month period of \$496,000 as compared to \$338,000 for the 12 months ended January 31, 1972, and recorded profits of \$18,000 compared to a loss of \$264,000 for the full year ended January 31, 1972. As an indicator of the future growth and profitability potential, the following are the six month highlights:

- Implementation of exclusive film distribution rights for Greatest Fights of the Century, NCAA, Doubleday, and others whereby rentable film titles have increased from approximately 300 to 875 subjects.
- Utilization of a polymer based film which will provide an estimated 400% greater run-time life over the former acetate based film.
- Realization of a 182% growth factor in the network of distributors throughout the U.S. A. and Canada, whereby various suppliers of hardware/software products are demonstrating interest in National Cinema Systems, Inc. as a mode of national advertising.
- Initiation of negotiations to acquire additional film subjects such as pro football, undersea specials, surfing, and skiing which would add an additional 100 rentable film titles to the existing library.

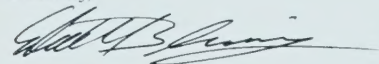
View-A-Vacation International Ltd., is still in a development mode. Accordingly no operational revenue or expenses have been reported for the six month period.

We now have greatly strengthened our management team, improved the cash flow and acquired new capital of more than \$440,000. Based on these strengths, we plan to achieve four major goals during the next six months:

- Improve the profitability of National Cinema Systems, Inc. by increasing the existing network of distributors.
- Transform View-A-Vacation International Ltd. into an operational status.
- Penetrate at least one new audio-visual market.
- Establish an initial network of National Cinema Systems, Inc. distributors in Europe.

We would like to congratulate the fine people associated with us for their dedication to the achievement of our Company goals.

Sincerely,



Edward W. Blessing,
President and Chief Executive Officer

August 28, 1972

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT:

Cash	\$ 15,564	
Notes receivable	2,625	
Accounts receivable	176,717	
Inventory and supplies, at cost	27,809	
Other assets	<u>15,712</u>	\$ 238,427

LIBRARY OF FILMS—Note 2

78,584

FIXED:

Equipment and furniture, at cost.	89,915	
Less accumulated depreciation	<u>37,747</u>	52,168

INVESTMENT IN NEW DERBY

MINES LTD. (N.P.L.) Notes 1 & 3		79,970
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PRELIMINARY DEVELOPMENT

COSTS—Note 4		473,312
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ORGANIZATION COSTS

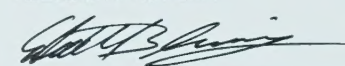
2,666

EXCESS OF PURCHASE PRICE

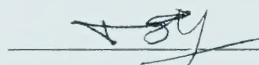
OVER NET ASSETS ACQUIRED—		
Note 1		<u>365,213</u>

\$1,290,340

On behalf of the Board:



Director



Director

STATEMENT OF LOSS AND DEFICIT

National Cinema Systems, Inc. Operations:

Revenue	\$496,314	
Cost of Sales	<u>293,621</u>	\$202,693

Expenses:

Salaries and employee benefits	67,640	
Legal, audit and professional fees	22,343	
Rent	9,180	
Printing, stationery and other	12,527	
Telephone	13,854	
Depreciation and amortization	2,260	
Advertising and promotion	27,625	
Travel and entertainment	22,186	
Shipping	<u>6,796</u>	184,411

NET EARNINGS FROM SUBSIDIARY

18,282

International Visual Systems Ltd.

Expenses:

Audit & legal	18,485	
Professional and agency fees	8,525	
Printing, stationery and office	2,899	
Promotion	2,217	
Telephone	322	
Travel	4,461	
Transfer and registration fees	3,370	
Interest and exchange	<u>4,296</u>	44,575

LOSS FOR SIX MONTHS

26,293

DEFICIT, JANUARY 31, 1972

8,147

DEFICIT, JULY 31, 1972

\$ 34,440

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTS AS AT JULY 31, 1972

LIABILITIES

CURRENT:			
Notes payable	\$ 10,000		
Accounts payable	234,239		
Refundable deposits	<u>20,500</u>	\$ 264,739	
SHAREHOLDERS' LOANS		12,065	

SHAREHOLDERS' EQUITY

SHARE CAPITAL:			
Authorized:			
3,000,000 common shares with no par value			
Issued and fully paid—Note 5			
1,075,005 shares	\$336,582		
150,000 shares for cash during period	444,252		
667,500 shares for National Cinema Systems, Inc.	66,750		
667,500 shares for View-A-Vacation International Ltd.	66,750		
3,600 shares by exercise of warrants—Note 5	<u>4,860</u>		
	<u>2,563,605</u>	919,194	
CONTRIBUTED SURPLUS:			
Shareholders' loans to View-A- Vacation International Ltd. forgiven			
	\$121,282		
Shares gifted to company	<u>7,500</u>	128,782	
DEFICIT	<u>(34,440)</u>	1,013,536	
		<u>\$1,290,340</u>	

SOURCE AND APPLICATION OF FUNDS

Funds Were Received From:

Issue of 153,600 shares for cash	\$449,112		
Loss from operations, net of depreciation and amortization charges totalling \$32,881	<u>6,588</u>	\$455,700	

Funds Were Applied To:

Acquisition of subsidiaries— Note 1 (a) & (b)	94,714		
Expansion of library of films, excluding amortization of \$22,906—Note 2	76,135		
Acquisition of fixed assets	10,902		
Preliminary development costs, net of depreciation	82,528		
Repayment of a loan from a shareholder	<u>14,370</u>	278,649	
WORKING CAPITAL INCREASED BY		177,051	
WORKING CAPITAL DEFICIT, JANUARY 31, 1972.		<u>(203,363)</u>	
WORKING CAPITAL DEFICIT, JULY 31, 1972.		<u>\$ (26,312)</u>	

Note 1—Financial Presentation

The consolidated financial statements include the accounts of the Company and two wholly-owned subsidiaries as described below. The accounts of New Derby Mines, Ltd. (N.P.L.), the other wholly-owned subsidiary have not been consolidated because of the different nature of that company's business operations.

a) National Cinema Systems, Inc.

Pursuant to an agreement dated May 21, 1971, revised January 4, 1972, and effective February 1, 1972, with the shareholders of National Cinema Systems, Inc. a company incorporated under the laws of the State of California, International Visual Systems Ltd. acquired all of the issued and outstanding share capital of National Cinema Systems, Inc. in exchange for 667,500 common shares of the Company, at \$0.10 each, as determined and set by directors resolution. Total consideration, thus determined is \$66,750. The shares were exchanged on March 14, 1972.

The excess of consideration paid over net book value of assets acquired, was \$342,963.

b) View-A-Vacation International Ltd.

Pursuant to an agreement dated April 27, 1971, effective February 1, 1972, with the two shareholders of View-A-Vacation International Ltd., a company incorporated under the laws of British Columbia, International Visual Systems Ltd. acquired all of the issued and outstanding share capital of View-A-Vacation International Ltd. in exchange for 667,500 common shares of the Company at \$0.10 each, as determined and set by directors resolution. Total consideration, thus determined, is \$66,750. The shares were exchanged in March 1972.

The excess of consideration paid over net book value of assets acquired was \$22,250.

Comparisons of the consolidated figures as at July 31, 1972, to the unconsolidated figures as at January 31, 1972, are not meaningful and therefore comparative figures are not presented.

Note 2—Library Film Costs

The balance represents the costs incurred to edit, convert to Super 8 MM film, print and cassette a variety of subjects. These cassettes are leased to distributors of National Cinema Systems, Inc.

Management is currently evaluating an amortization policy that will fairly present an allocation of film library costs to the related future film rentals.

For the 6 months ended July 31, 1972, an amount of \$22,906 has been allocated to the cost of film rentals.

Note 3—Investment in New Derby Mines Ltd. (N.P.L.)

International Visual Systems Ltd. sold its interest in all of its mineral properties for 750,000 common shares of New Derby Mines Ltd. (N.P.L.) which are held in escrow. The value of the investment was recorded at the net book value of the properties and their related development costs.

Mineral properties, at cost	\$13,015
Deferred exploration costs	<u>66,955</u>
	<u>\$79,970</u>

Note 4—Preliminary Development Costs

View-A-Vacation International Ltd. has adopted the accounting policy of recording net costs incurred during its development stages as preliminary development costs. Management has decided that this company is still in the development stage and accordingly costs incurred to July 31, 1972, totalling \$473,312 have been treated as preliminary development costs.

Note 5—Share Capital

There are Series "A" share purchase warrants outstanding which entitle the holders to purchase 196,400 common shares on or before October 31, 1972, at the price of \$1.35 per share.

The Shareholders at the Annual and Extraordinary General Meeting on July 31, 1972, approved a stock option plan whereby 130,000 common shares of the Company are set aside for the purpose of granting options to key employees of the Company and its subsidiaries to induce them to remain in the employ of the Company and to provide them with additional incentive in their efforts on behalf of the Company. Directors who are not employees of the Company are not eligible to participate in the plan.

The options are for a period of 5 years and must be exercised no later than 5 years from the date on which they are granted. The purchase price of shares covered by each option will not be less than the market value of the shares at the time the option is granted.

The options are non-transferable and can only be exercised while the employee is in the employ of the Company and has been so continuously employed from the time the option was granted. The options lapse if an employee ceases to be an employee for any reason other than his death.

Note 6—Contributed Surplus

Pursuant to the various agreements between shareholders of View-A-Vacation International Ltd., shareholders' loans to that Company together with accumulated interest thereon, amounting to \$121,282 in total, were forgiven on March 14, 1972.

Note 7—Subsequent Events

Subsequent to July 31, 1972, the Company obtained a line of credit amounting to \$50,000, payable upon demand, bearing interest at 8%, secured by book debts of the Company and its subsidiaries, and the personal guarantee of a shareholder and director.

Note 8—Outstanding Lawsuits

One distributor has brought action against the Company alleging breaches of Exclusive Distributorship Agreements. In the opinion of legal advisors the maximum exposure is approximately \$20,000 of which \$20,000 has been provided in the accounts.

Note 9—Lease Commitment

The Company has entered into long-term leases with the owners of various motion picture films. These agreements call for minimum payments totalling \$284,000 over the next seven years of which \$22,000 is payable within one year.

Board of Directors

Keith Baldwin

Chairman of the Board of Directors

Edward W. Blessing

*President, Chief Executive Officer
and Director*

Thomas Sharp

Director

Registrar and Transfer Agent

Guaranty Trust Company of Canada

540 Burrard Street

Vancouver 1, British Columbia, Canada

Stock Exchange Listing

Vancouver Stock Exchange

536 Howe Street

Vancouver 1, British Columbia, Canada

General Counsel

Barbeau, McKercher, Collingwood & Hanna

16th Floor, Board of Trade Towers

1177 West Hastings Street

Vancouver 1, British Columbia, Canada

Associate Counsel

For the United States:

Wenke, Kemble and Burge

1055 North Main Street, Suite 801

Santa Ana, California 92701

Auditors

Touche Ross & Co.

Suite 1500, Board of Trade Towers

1177 West Hastings Street

Vancouver 1, British Columbia, Canada

For the United States:

Touche Ross & Co.

3700 Wilshire Boulevard

Los Angeles, California 90010



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